

Rafael Davtian
Division Chief
California Department of Health Care Services
Capitated Rates Development Division
1501 Capitol Avenue, PO Box 997413, MS 44413
Sacramento, CA 95899-7413

December 22, 2021

Subject: Coordinated Care Initiative Dual-Eligible Model Capitation Rate Development and Certification Addendum for January 1, 2022 through December 31, 2022 (CY 2022)

Rafael Davtian:

The California Department of Health Care Services (DHCS) contracted with Mercer Government Human Services Consulting (Mercer), part of Mercer Health & Benefits LLC, to develop actuarially sound capitation rates for use during the CY 2022 rating period for Coordinated Care Initiative (CCI) dual-eligible beneficiaries. The CY 2022 period encompasses January 1, 2022 through December 31, 2022. The CCI dual-eligible model includes rates for Cal MediConnect (CMC), the State's dual demonstration program.

The capitation rates were developed by Mercer and certified in a report dated December 15, 2021 (please see the attached document: *CA CCI Duals CY 2022 Rate Certification 2021 12.pdf*). This certification addendum provides additional documentation for one risk-sharing mechanism, the CMC Risk Corridor. There are no revisions to any assumptions, capitation rates, or special contract provisions related to payment as documented in the December 15, 2021 rate certification. Based on more recent guidance from the Centers for Medicare & Medicaid Services (CMS), this addendum provides a more detailed overview of the CMS Risk Corridor risk-sharing mechanism for the purposes of satisfying documentation requirements under the June 2021– July 2022 Medicaid Managed Care Rate Development Guide Section I.4.C.ii.a (i-iv).

CY 2022 Risk-Sharing Mechanisms

The rate certification dated December 15, 2021 included provisions for four risk-sharing mechanisms. The following risk-sharing mechanisms were fully documented in the aforementioned CY 2022 rate certification and remain unchanged:

- Member Mix Risk Corridor

- Enhanced Care Management Risk Corridor (non-CMC)
- Major Organ Transplant Risk Corridor (non-CMC)

This letter provides additional documentation for the fourth risk-sharing mechanism described in the CY 2022 rate certification, the CMC Risk Corridor.

CMC Risk Corridor

The CY 2022 CMC capitation rates are subject to a one-sided risk corridor as described in the CMC three-way contracts between CMS, the State, and the managed care organizations (MCOs). The risk corridor includes all Medicare Part A, Medicare Part B, and Medi-Cal eligible adjusted service and non-service expenditures, as defined under the three-way contract.

Rationale for Using the Risk-sharing Arrangement

The CMC dual demonstration utilizes a one-sided risk corridor for Demonstration Years 6 through 8. The CY 2022 rating period covers Demonstration Year 8. The one-sided risk corridor is designed to limit profits received by CMC MCOs to a reasonable percentage of total revenue.

Description of How the Risk-sharing Arrangement is Implemented

The risk-sharing arrangement may result in payment by the MCO to the State and CMS. All payments will be calculated and determined jointly by the State and CMS, using reported adjusted non-service expenditures and adjusted service expenditures, as described in the three-way contract. Calculations are based on encounter data, cost data, and financial reporting data for the CY 2022 period. The MCO shall submit to DHCS and CMS the necessary data to calculate and verify the settlement after the end of the Demonstration Year, in the form and manner prescribed by DHCS and CMS. The risk corridor will be reconciled after the application of any risk adjustment methodologies, and reflect actual quality withhold payments received back by the MCO.

The risk corridor will consist of the following bands:

- The MCO will retain all gains equal to or less than 5% of the adjusted interim capitation rate revenue received by the MCO
- DHCS/CMS and the MCO will share the portion of gains that is over 5% and less than or equal to 7% of the adjusted interim capitation rate revenue received by the MCO, with 75% retained by the MCO and 25% paid to DHCS/CMS

- DHCS/CMS and the MCO will share the portion of gains that is over 7% and less than or equal to 9% of the adjusted interim capitation rate revenue received by the MCO, with 50% retained by the MCO and 50% paid to DHCS/CMS
- DHCS/CMS and the MCO will share the portion of gains that is over 9% and less than or equal to 12% of the adjusted interim capitation rate revenue received by the MCO, with 25% retained by the MCO and 75% paid to DHCS/CMS
- DHCS/CMS will recoup the entire portion of the gains that exceed 12% of the adjusted interim capitation rate revenue received by the MCO

Description of Any Effect the Risk-sharing Arrangements Have on the Development of the Capitation Rates

There is no impact on the CY 2022 capitation rates for the provision of a risk corridor. The CY 2022 capitation rates developed by Mercer are not adjusted in any way due to the presence of a risk corridor.

Documentation Demonstrating the Risk-sharing Mechanism has been Developed in Accordance with Generally Accepted Actuarial Principles and Practices

This risk-sharing mechanism has been developed in accordance with generally accepted actuarial principles and practices and is appropriate for the Medi-Cal covered populations and services under the CMC three-way managed care contract (4.4.3).

Certification

This certification assumes items in the Medicaid State Plan or Waiver, as well as the MCO contract, have been approved by CMS.

In preparing the CY 2022 capitation rates, Mercer has used and relied upon enrollment, eligibility, claim, reimbursement level, benefit design and financial data and information supplied by DHCS, its MCOs and its vendors. DHCS, its MCOs and its vendors are solely responsible for the validity and completeness of this supplied data and information. Mercer has reviewed the summarized data and information for internal consistency and reasonableness, but we did not audit it. In Mercer's opinion, it is appropriate for the intended rate-setting purposes. However, if the data and information are incomplete or inaccurate, the values shown in this report and associated exhibits may differ significantly from values that would be obtained with accurate and complete information; this may require a later revision to this report.

Because modeling all aspects of a situation or scenario is not possible or practical, Mercer may use summary information, estimates or simplifications of calculations to facilitate the modeling of future events in an efficient and cost-effective manner. Mercer may also exclude factors or data that are immaterial in our judgment. Use of such simplifying techniques does not, in our judgment, affect the reasonableness, appropriateness or attainability of the results for the Medicaid program. Actuarial assumptions may also be changed from one certification period to the next because of changes in mandated requirements, program experience, changes in expectations about the future and other factors. A change in assumptions is not an indication that prior assumptions were unreasonable, inappropriate or unattainable when they were made.

Mercer certifies that the CCI dual-eligible model risk-sharing mechanisms for the CY 2022 rating period, January 1, 2022 through December 31, 2022 were developed in accordance with generally accepted actuarial practices and principles, and are appropriate for the Medi-Cal covered populations and services under the managed care contract. The undersigned actuaries are members of the American Academy of Actuaries and meet its qualification standards to certify to the actuarial soundness of Medicaid managed care capitation rates.

Capitation rates developed by Mercer are actuarial projections of future contingent events. All estimates are based upon the information and data available at a point in time, and are subject to unforeseen and random events. Therefore, any projection must be interpreted as having a likely, and potentially wide, range of variability from the estimate. Any estimate or projection may not be used or relied upon by any other party or for any other purpose than for which it was issued by Mercer. Mercer is not responsible for the consequences of any unauthorized use. Actual MCO costs will differ from these projections. Mercer has developed these rates on behalf of DHCS to demonstrate compliance with the CMS requirements under 42 CFR §438.4 and in accordance with applicable law and regulations. There are no stop loss or reinsurance arrangements in these rates. Use of these rates for any purpose beyond that stated may not be appropriate.

DHCS understands that Mercer is not engaged in the practice of law, or in providing advice on taxation matters. This report, which may include commenting on legal or taxation issues or regulations, does not constitute and is not a substitute for legal or taxation advice. Accordingly, Mercer recommends that DHCS secure the advice of competent legal and taxation counsel with respect to any legal or taxation matters related to this report or otherwise.

This certification report assumes the reader is familiar with the Medi-Cal program, Medi-Cal eligibility rules, and actuarial rating techniques. It has been prepared exclusively for DHCS and CMS, and should not be relied upon by third parties. Other readers should seek the advice of actuaries, or other qualified professionals competent in the area of actuarial rate projections, to understand the technical nature of these results. Mercer is not responsible for, and expressly disclaims liability for, any reliance on this report by third parties.

To the best of Mercer's knowledge, there are no conflicts of interest in performing this work.

DHCS agrees to notify Mercer within 30 days of receipt of this report if it disagrees with anything contained in this report or is aware of any information or data that would affect the results of this report that has not been communicated or provided to Mercer or incorporated herein. The report will be deemed final and acceptable to DHCS if nothing is received by Mercer within such 30-day period.

If you have any questions on the above or the certification document, please feel free to contact Katharina Lau at +1 (602) 522-6448 or Gabe Smith at +1 (602) 522-6540.

Sincerely,



Katharina Lau, ASA, MAAA
Principal



Gabe Smith, FSA, MAAA
Principal